



NATIONAL UNIVERSITY SYSTEM
INSTITUTE FOR POLICY RESEARCH

POLICY BRIEF

The military saves San Diego's economic bacon yet again (at least for now) *If not for military and other federal government income in 2009, San Diego would have resembled Miami or Phoenix*

The Great Recession, brought about by the nation's financial and housing meltdown stifling consumer spending and business investment, has had a tremendously negative impact in California. San Diego is holding up much better than the rest of the state in recent years largely because military payrolls significantly increased. Absent that countervailing factor, the region would likely be suffering much higher rates of unemployment and much graver economic dislocations.

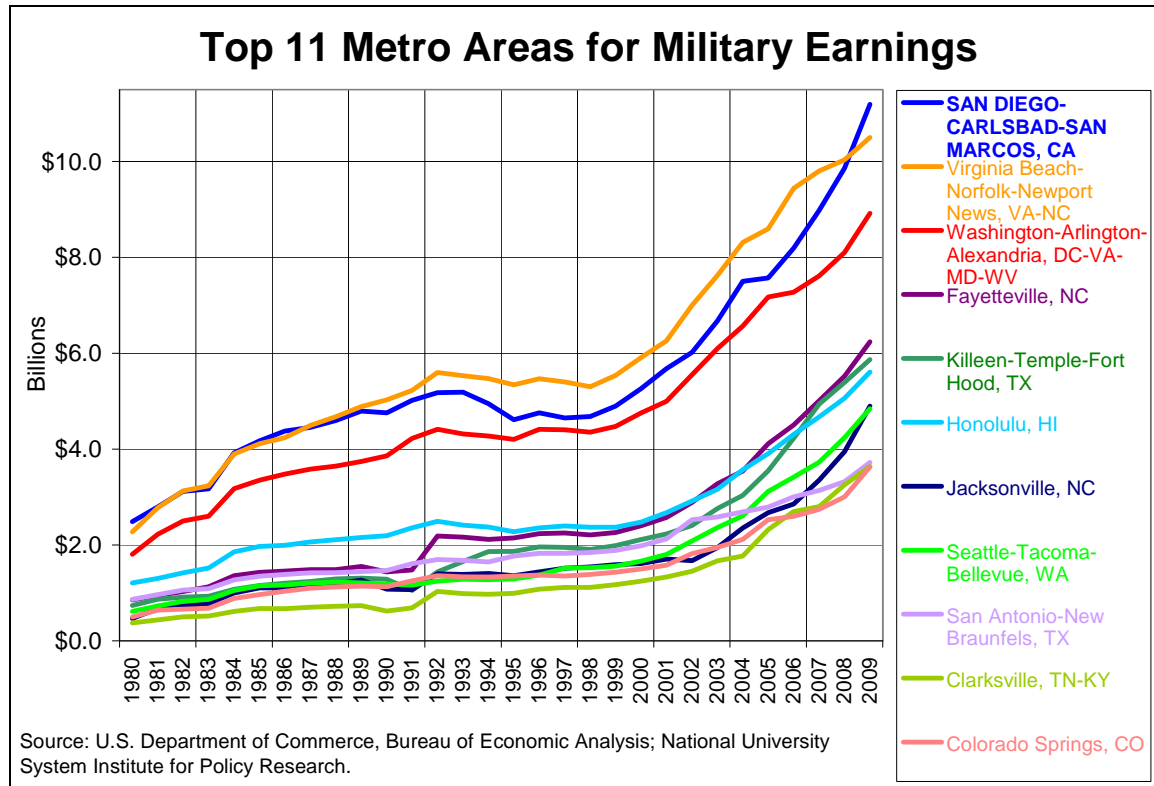
This is most evident in an examination of the latest data reported by the U.S. Department of Commerce's *Bureau of Economic Analysis* (BEA) of metropolitan personal income. On August 9, 2010, the BEA released their annual report of 2009 personal income for the nation's 366 metropolitan statistical areas (MSAs). This is a precursor to their later estimates of gross domestic product measuring the overall economic performance of the nation's metro areas.

In 2009 personal income decreased in 223 MSAs, increased in 134, and remained unchanged in 9. On average, MSA personal income across the nation fell 1.8 percent in 2009, after rising 2.7 percent in 2008. The highest relative gain in income was 14.4 percent reported for Jacksonville, NC, while the biggest drop was -7.1 percent in Naples, FL. Inflation, as measured by the national price index of personal consumption expenditures, declined to 0.2 percent in 2009 from 3.3 percent in 2008.

Although personal income grew among 134 MSAs, in most cases the growth only represented an increase of transfer receipts (unemployment insurance benefits, for example). Net earnings by workers actually increased among only 57 MSAs and the private sector accounted for the most earnings growth in only **five** relatively small MSAs (Kennewick, WA; Cumberland, MD; Morgantown, WV; Cape Girardeau, MO; and Ithaca, NY). Among the 57 MSAs where net earnings increased, gains were concentrated in the government sector.

All 11 metro areas showing the highest increases in personal income earnings in 2009 were also among the top areas for military earnings. The Washington-Arlington-Alexandria, DC-VA-MD-WV led all areas by far in total income gain during 2009 increasing by \$3.5 billion. Besides the nation's capital for the federal government, Washington DC is also the 3rd highest metro for military earnings.

The relatively small Jacksonville, NC metro area had the nation's 2nd highest gain of personal income in 2009 adding \$972 million. Jacksonville was also the nation's 7th highest for military earnings.



In 2009, San Diego once again leads all metro areas as the largest recipient of military earnings, decisively retaking the lead after trailing the Virginia Beach-Norfolk-Newport News, VA-NC MSA since 1986. Military payrolls jumped 13.5 percent in San Diego with one-year \$1.3 billion gain, while the Virginia Beach area increased 4.6 percent adding \$466 million.

Among the nation's top 11 "military metros", only San Diego and the Seattle-Tacoma-Bellevue, WA MSA endured a decline of overall personal income in 2009. Despite San Diego's significant increase of military earnings during the year, personal income overall declined by more than \$1.5 billion or 1.1 percent decrease. Seattle ranked 8th for military payrolls but also absorbed a net 1.7 percent decrease in overall personal income earnings.

Private sector earnings fell a staggering \$4.0 billion in San Diego, dropping the region among the nation's major metro areas showing the largest decreases in overall personal income. The \$1.3 billion gain from military payrolls (\$1.9 billion for all federal workers) significantly cushioned the impact of the Great Recession. **If federal and military wages had not increased in 2009, and all other transfers remained the same, San Diego's personal income would have declined 3.1 percent, similar to percentage declines endured in other large Sun Belt metros devastated by the housing downturn, such as Phoenix (-3.5 percent) or Miami/Fort Lauderdale (-3.1 percent).** Private earnings in Seattle fell by an even greater \$4.8 billion, far surpassing the increase in their military income of \$603 million.

Declining personal income was seen throughout California's metro areas, as the state overall lost \$39.7 billion in 2009, a 2.5 percent decrease. Like San Diego, the state was somewhat cushioned by increased federal dollars. Despite remaining the nation's largest recipient of military dollars (primarily because of San Diego), California nevertheless led the nation among states in 2009 for total income losses. If not for increased military earnings and other federal government income, California would have lost at least \$43.8 billion (-2.8 percent).

The Los Angeles-Long Beach-Santa Ana metro accounted for the greatest portion of the state's losses of personal income, losing \$17.2 billion (-3.0 percent). The San Francisco-Oakland-Fremont metro suffered an \$8.9 billion decrease (-3.3 percent) and San Jose-Sunnyvale-Santa Clara dropped \$4.1 billion (-3.8 percent). The table below shows percentage increases of military payrolls were higher among other California metro areas but dollar amounts were much less than in San Diego.

RANKING OF PERSONAL INCOME CHANGE AND MILITARY PAYROLLS, 2008-09

Inc Chg 2009 Rnk	Metropolitan Area	Personal Income				Military Earnings				
		2008	2009 ^p	Change 09/08	Per cent	Milt 2009 Rnk	2008	2009 ^p	Change	Per cent
		(Millions of dollars)				(Millions of dollars)				
1	Washington-Arlington-Alexandria, DC-VA-MD-WV	\$305,595	\$309,088	\$3,493	1.1	3	\$8,101	\$8,921	\$820	10.1
2	Jacksonville, NC	6,758	7,730	972	14.4	7	3,944	4,896	951	24.1
3	Fayetteville, NC	13,838	14,745	906	6.6	4	5,525	6,238	713	12.9
4	Baltimore-Towson, MD	128,213	129,061	848	0.7	13	2,041	2,286	244	12.0
5	Virginia Beach-Norfolk-Newport News, VA-NC	65,639	66,434	795	1.2	2	10,036	10,502	466	4.6
6	El Paso, TX	20,728	21,515	788	3.8	15	1,786	2,171	385	21.6
7	Killeen-Temple-Fort Hood, TX	14,071	14,698	627	4.5	5	5,393	5,869	476	8.8
8	San Antonio-New Braunfels, TX	70,947	71,489	542	0.8	9	3,319	3,720	400	12.1
9	Colorado Springs, CO	23,581	24,077	496	2.1	11	3,008	3,629	621	20.7
10	Honolulu, HI	40,809	41,282	473	1.2	6	5,059	5,606	547	10.8
11	Clarksville, TN-KY	9,304	9,730	426	4.6	10	3,252	3,635	382	11.8
341	Riverside-San Bernardino-Ontario, CA	\$125,379	\$124,004	-\$1,375	-1.1	16	\$1,772	\$2,141	\$369	20.8
345	SAN DIEGO-CARLSBAD-SAN MARCOS, CA	140,847	139,345	-1,502	-1.1	1	9,864	11,193	1,329	13.5
353	San Jose-Sunnyvale-Santa Clara, CA	105,979	101,926	-4,053	-3.8	111	163	188	25	15.5
363	San Francisco-Oakland-Fremont, CA	266,680	257,761	-8,920	-3.3	60	508	585	77	15.0
365	Los Angeles-Long Beach-Santa Ana, CA	568,435	551,271	-17,164	-3.0	23	1,277	1,458	181	14.1
50	California (statewide)	\$1,604,113	\$1,564,389	-\$39,724	-2.5	1	\$17,672	\$20,025	\$2,353	13.3
	United States Metropolitan Portion	10,684,318	10,488,977	-195,342	-1.8		139,999	156,757	16,758	12.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis; National University System Institute for Policy Research.

p: preliminary

What these figures most starkly illuminate is that San Diego is faced with a period economic dislocation not seen since the Great Depression. Particularly worrisome is that there has been news in recent weeks that the Obama administration intends to cut back on military spending, in part to address an unprecedented level of deficit spending. The challenge for the region is to work now to ensure robust economic competitiveness in the private sector areas where San Diego has an advantage so as to minimize the looming impacts of the probable cut back in military expenditures. Absent such action, the region could experience at the macroeconomic level a further worsening of an already painful economy.